

Message Text

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USEEC AND EMBASSY

FOR: EB/TRP - THOMAS O'DONNELL

E.O. 11652: N/A

TAGS: ETRD, ICO, EPAP

SUBJECT: COFFEE -- FIRST MEETING OF STUDY GROUP ON
COFFEE STOCK ARRANGEMENTS, JANUARY 23-26

1. SUMMARY. THE INTERNATIONAL COFFEE ORGANIZATION'S WORKING GROUP ON THE FEASIBILITY OF INTERNATIONAL STOCK ARRANGEMENTS GOT OFF TO A SPIRITED BUT INCONCLUSIVE START AT ITS FIRST MEETING, JANUARY 23-26. AS WIDE-RANGING AND LIVELY AS THE DISCUSSIONS WERE, FEW PARTICIPANTS WERE READY TO COMMIT THEMSELVES TO ANY PARTICULAR SCHEME. THE PRODUCERS GENERALLY GAVE THEIR MORAL SUPPORT TO SETTING UP SOME FORM OF STOCK ARRANGEMENT BUT DID NOT PRESS THE ISSUE. ONLY MEXICO HAD DRAWN UP A CONCRETE PLAN. BRAZIL ESPECIALLY KEPT A VERY LOW PROFILE SUPPORTING AN INTERNATIONAL STOCK IN PRINCIPLE BUT TAKING NO POSITION ON ANY OF THE DETAILS. THE U.S. PARTICIPATED WITHOUT COMMITMENT IN DISCUSSING VARIOUS POSSIBLE STOCK ARRANGEMENTS. WE WERE CAREFUL NOT TO ENDORSE ANY PARTICULAR MECHANISM. THE STUDY GROUP AGREED THAT FURTHER DISCUSSIONS WOULD BE USEFUL BUT LEFT TIMING TO THE EXECUTIVE DIRECTOR IN CONSULTATION WITH MEMBERS. END SUMMARY.

2. THE STUDY GROUP MET TO COMPLY WITH A RESOLUTION FROM THE LAST COUNCIL SESSION TO IMPLEMENT ARTICLE 51 OF THE LIMITED OFFICIAL USE

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AGREEMENT, WHICH PROVIDES THAT A FEASIBILITY STUDY ON STOCK ARRANGEMENTS TAKE PLACE. THE ICO EXECUTIVE DIRECTOR BELTRAO WAS ELECTED AS CHAIRMAN. THE GROUP DECIDED TO USE A PAPER SUBMITTED BY THE EEC AS THE TERMS OF REFERENCE. IT CONSISTED OF A SERIES OF QUESTIONS COVERING ALL ASPECTS OF AN INTERNATIONAL STOCK ARRANGEMENT. BEFORE DISCUSSIONS WENT FAR, HOWEVER, BOTH THE UK AND US MADE STATEMENTS DESCRIBING THEIR VIEWS. THE UK SAID THAT NO DECISION COULD BE REACHED BEFORE ALL THE ALTERNATIVES WERE STUDIED AND THAT THE STOCK COULD BE EXPECTED ONLY TO TRIM THE EDGES OF PRICE FLUCTUATIONS NOT INCREASE SUPPLY OR DEMAND. THE US (THIGPEN) NOTED IT HAD NO POSITION IN SUPPORT OF ANY PARTICULAR STOCKING MECHANISM' NOR DID WE HAVE ANY PRECONCEIVED NOTIONS ABOUT THE DESIRABILITY OF AN INTERNATIONAL STOCKING ARRANGEMENT FOR COFFEE.

3. A SUMMARY OF THE DISCUSSIONS AS ORGANIZED AROUND THE MAJOR TOPICS IN THE EC PAPER FOLLOWS:
(A) FUNCTION OF STOCKS: IN DISCUSSING A BUFFER STOCK MODEL FOR COFFEE, MEXICO (GURRIA) LED OFF WITH A STATEMENT THAT ANY NEW STOCK MECHANISM SHOULD COMPLIMENT THE

EXISTING MECHANISMS OF THE AGREEMENT WITH QUOTAS
ADDRESSING THE LONG-TERM PROBLEMS AND STOCKS THE SHORT-
TERM. ANGOLA (MEDINA) MADE THE POINT THAT A BUFFER
STOCK WOULD IN EFFECT BE A NEW MEMBER OF THE AGREEMENT,
NEITHER EXPORTER NOR IMPORTER, BUT BOTH, BUYING AND
SELLING TO STABILIZE PRICES. THE FRG (RORIG) SAID THAT
A STOCK CONCERNED WITH MODERATING SUPPLY FLUCTUATIONS
WOULD BENEFIT CONSUMERS WHILE A STOCK CONCERNED WITH
REDUCING PRICE FLUCTUATIONS WOULD BENEFIT PRODUCERS. THE
FRG ALSO QUESTIONED WHETHER THE COST OF A STOCK WOULD NO
BE GREATER THAN THE RISKS OF SUPPLY INSTABILITY. THE US
(THIGPEN) NOTED THAT A BUFFER STOCK ON THE ORDER OF THAT
UNDER THE TIN AGREEMENT SHOULD BE CONCERNED WITH MODERA-
TING SHORT-TERM FLUCTUATIONS BUT ALWAYS ALONG LONG-TERM
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MARKET TRENDS.

(B) RELATIONSHIP TO EXISTING MECHANISMS: ANGOLA OPENED

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THE WAY FOR INTRODUCTION OF THE MEXICAN PROPOSAL BY ARGUING THAT A BUFFER STOCK SHOULD SERVE AS THE FIRST LINE OF DEFENSE AGAINST FALLING PRICES, WITH QUOTAS TO COME INTO EFFECT AS THE SECOND LINE. MEXICO EXPANDED ON THIS, NOTING ITS PLAN WOULD BE A COMPLEMENT TO THE EXISTING MECHANISMS. THIS PLAN WOULD IN FACT HAVE PRICES DEFENDED ALMOST ENTIRELY THROUGH STOCKS, WITH QUOTAS CALLED IN ONLY AS A LAST RESORT. GURRIA IMPLIED THAT THE QUOTA TRIGGERS UNDER ARTICLE 33 OF THE PRESENT ICA WOULD REMAIN IN PLACE (ALTHOUGH NOT EXCLUDING THE POSSIBILITY OF ADJUSTMENT OF TRIGGER LEVELS) WITH THE NEW BUFFER STOCK PRICE RANGE (HE SUGGESTED A US 90 CENT RANGE) PUT IN PLACE ABOVE. COLOMBIA, EL SALVADOR AND THE FRG SEEMED TO FAVOR QUOTAS AND A BUFFER STOCK OPERATING MORE OR LESS SIMULTANEOUSLY (COCOA MODEL) RATHER THAN SEQUENTIALLY.

(C) TIMING: THE ISSUE OF WHEN TO DEVELOP A STOCKING PROGRAM PROVOKED CONSIDERABLE WRANGLING. MEXICO AND ANGOLA STRESSED URGENCY. THE FRG SAID THAT IT WAS DIFFICULT TO CONSIDER TIMING UNTIL AFTER THE REVIEW OF THE TRIGGER PRICES FOR INTRODUCING QUOTAS CALLED FOR IN ARTICLE 33. THE UK CLARIFIED THE DISCUSSIONS SOMEWHAT BY DISTINGUISHING TWO QUESTIONS: WHEN TO EXPLORE POSSIBLE INSTRUMENTS FOR STOCKING AND WHEN TO BEGIN

ACQUIRING THE STOCK. IN ONE OF ITS FEW INTERVENTIONS, BRAZIL (LIMA) SAID THAT THE TIME WAS RIGHT TO DEVELOP A STOCKING SCHEME AND THAT THE PRICE LEVELS TO BEGIN STOCKING COULD BE WORKED OUT LATER. EL SALVADOR POINTED LIMITED OFFICIAL USE

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OUT THAT ANY STOCK PLAN SHOULD BOLSTER THE ECONOMIC PROVISIONS OF THE AGREEMENT AND THAT A FUND BE ESTABLISHED FOR EVENTUAL STOCK PURCHASES. EL SALVADOR NEVERTHELESS MADE IT CLEAR THAT ANY DISCUSSION OF INTERNATIONAL STOCK ARRANGEMENTS FOR COFFEE WAS DECIDEDLY SUBORDINATE IN URGENCY TO PRICE TRIGGER DISCUSSIONS.

(D) STORAGE: MEXICO, SUPPORTED BY KENYA, TOOK THE VIEW THAT STOCKS SHOULD BE CENTRALLY HELD AND MANAGED BY AN INTERNATIONAL AUTHORITY. BRAZIL ARGUED AGAIN THAT THIS WAS ANOTHER DETAIL THAT COULD EVENTUALLY BE SETTLED. THE US (WALL) ARGUED THAT IT WAS PREMATURE TO MAKE JUDGEMENTS IN FAVOR OF HOLDING STOCKS EITHER NATIONALLY OR INTERNATIONALLY. ALTHOUGH THE MEXICAN BUFFER STOCK PROPOSAL, AS THE ONLY CONCRETE PROPOSAL ON THE TABLE, FORMED THE BASIS OF MUCH OF THE DEBATE, CONSIDERATION OF OPTIONAL STOCK SCHEMES WAS NOT FORECLOSED.

(E) VOLUME: VIEWS ON THE SIZE OF A STOCK VARIED. MEXICO'S FIGURE WAS AROUND 10 MILLION BAGS. FOR ANGOLA, 15 TO 25 MILLION BAGS WAS MORE LIKE IT, BASED ON THE RESULTS OF PREVIOUS STUDIES IN THE ICO. THE FRG OPTED FOR THE HIGH ESTIMATE, NOTING THAT PRODUCER'S SALES WOULD HAVE TO BE IN HARMONY WITH STOCK PURCHASES. THE US (WALL) SAID THAT MUCH MORE ANALYSIS WAS REQUIRED ON THE ECONOMIC RATIONALE FOR THESE ESTIMATES AND THAT THE RESULTS WOULD DEPEND ON HOW MUCH PROTECTION WE WANTED TO COVER POTENTIAL SUPPLY DISRUPTIONS.

(F) FINANCING: THE FRG AND COLOMBIA QUESTIONED WHETHER STOCKS SHOULD BE PURCHASED OR FINANCED AT THE WORLD MARKET PRICE OR AT THE INTERNAL PRICE PAID GROWERS. OTHERS QUESTIONED WHETHER FULL ACQUISITION COSTS SHOULD BE COVERED OR, LIKE IN THE COCOA AGREEMENT, ONLY A PORTION OF THEM. ON THE SOURCES OF FINANCING, THE DEBATE CENTERED ON VAGUE PRINCIPLES, SUCH AS THAT THE FUND SHOULD BE SELF-SUFFICIENT AND ITS COSTS SHARED AMONG PRODUCERS AND CONSUMERS. VARIOUS MEANS OF RAISING FUNDS WERE EXPLORED, INCLUDING DIRECT CONTRIBU- LIMITED OFFICIAL USE

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TIONS IN CASH OR KIND, LEVIES OR DUTIES, AND BORROWING. THE US (WALL) PROPOSED THE FEE SYSTEM, SUCH AS THAT

ENVISAGED IN THE NEW SUGAR AGREEMENT, AS AN ALTERNATIVE TO CONSIDER. COLOMBIA (SANTOS) TOOK STRONG EXCEPTION TO ONE SUGGESTION THAT A COFFEE STOCK FUND MIGHT BE LINKED TO A FUTURE COMMON FUND. WITH VIVID IMAGERY, SANTOS, ON THE COMMON FUND, SAID THAT IN COLOMBIA'S VIEW GENEVA WAS A "DESERT, WITH NO WATER, WHERE NOTHING WORKED", WHILE LONDON WAS A LUSH OASIS, FULL OF RESTAURANTS WHERE EVERYTHING WORKED.

(G) COMPOSITION: MEXICO PROPOSED THREE WAYS TO BASE PURCHASES FOR THE BUFFER STOCK - LEAVE THE DECISION TO THE STOCK MANAGER, PURCHASE COFFEE IN PROPORTION TO THE AMOUNT OF VERIFIED STOCKS ALREADY HELD IN PRODUCING COUNTRIES, OR FINALLY BUY IN PROPORTION TO THEIR EXPORTS OR PRODUCTION. MEXICO FAVORED THE SECOND ALTERNATIVE, THE UK FAVORED THE FIRST, FRANCE THE SECOND, AND SWEDEN SOME COMBINATION OF THE FIRST AND THIRD. US (THIGPEN) NOTED THAT THE FIRST WAS MARKET ORIENTED AND WOULD PLACE COMPLETE CONFIDENCE IN THE BUFFER STOCK MANAGER'S ABILITY AND JUDGEMENT TO MODERATE PRICES WITHIN A PRE-DETERMINED PRICE RANGE; THE SECOND AND THIRD ALTERNATIVES WERE MORE IN THE TRADITION OF THE PRESENT ICA IN

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THAT THEY ENCOURAGED NATIONAL STOCK-HOLDING OR REWARDED EXPORT PERFORMANCE. FRANCE AND EL SALVADOR VOICED SCEPTICISM OVER A UK PROPOSAL THAT SOLUBLE COFFEE BE INCLUDED IN THE STOCK.

(H) NEXT STEPS: THE DATE FOR ANY FUTURE MEETINGS WAS LEFT OPEN. THE WORKING GROUP ADJOURNED ON THE UNDERSTANDING THAT BELTRAO WOULD PREPARE A SUMMARY OF THE DISCUSSIONS AND LATER RECOMMEND WHEN TO RECONVENE AFTER CONSULTING WITH THE PARTICIPANTS. THE US COMMENTED THAT IT WAS MUCH TOO SOON TO CONCLUDE THAT A PROCESS LEADING TOWARD NEGOTIATIONS HAD BEGUN. THE FRG ADDED THAT ANY REPORT THE GROUP MIGHT PREPARE FOR THE COUNCIL SHOULD EMBRACE THE VARIOUS IDEAS AND NOT MAKE ANY SINGLE RECOMMENDATION. ONLY MEXICO SOUGHT TO DEFINE THE FUTURE WORK PROGRAM MORE EXPLICITLY, BUT ITS ATTEMPT WAS RESTRAINED AND FINALLY UNSUCCESSFUL.

4. COMMENT: THE FIRST MEETING ON THE FEASIBILITY OF COFFEE STOCKS MET THE CRITERIA OF A "FULL AND FRANK EXCHANGE OF VIEWS". CONSUMERS WERE CURIOUS BUT NON-COMMITTAL. NONE OF THE PRODUCERS EXCEPT MEXICO AND ANGOLA TOOK FIRM STANDS ON ANY SPECIFIC POINT. BRAZIL'S PERFORMANCE WAS NOTABLE IN ITS RETICENCE. IT GAVE LITTLE INDICATION OF WHAT ITS SUBSTANTIVE VIEWS WERE. MOST OF THE OTHER PRODUCERS SEEMED INTERESTED IN SOME

FORM OF STOCK ARRANGEMENT BUT WERE NOT PREPARED TO PUSH
IN EARNEST. AT LEAST SOME, PARTICULARLY COLOMBIA AND
EL SALVADOR, ARE SAVING THEIR ENERGY TO PRESS FOR A
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CAUSE MUCH DEARER TO THEIR HEARTS - REVISION OF THE
TRIGGER PRICES FOR INTRODUCING QUOTAS. THAT REVIEW WILL
BEGIN IN ANOTHER WORKING GROUP SCHEDULED TO MEET
FEBRUARY 21-24.

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